

February 3, 2003

Mr. Kevin Waring  
Chair, Local Boundary Commission  
550 West Seventh Ave  
Suite 1770  
Anchorage, AK 99501

Dear Mr. Waring:

The City of Craig has reviewed Chapter Three of the Public Review Draft of the LBC's Review of the Unorganized Borough. The review is required by Chapter 53, SLA 2002. The city offers the following comments on the portions of the draft detailing economic capacity and population size and stability.

#### **Economic Capacity**

Section B of Chapter 3 details the economic capacity of the eight model borough areas. The City of Craig believes Section B misrepresents revenues available locally, and fails to account for significant changes that may impact existing municipalities should Prince of Wales Island form a borough government.

While, as the study states on page 9, four of the last five borough governments formed do not levy a property tax, it is also true that all boroughs in Southeast Alaska do levy the tax. The four newest boroughs that do not levy property taxes generate income from excise taxes on uniquely valuable resources not available to the POW model borough. Northwest Arctic Borough (Red Dog Mine) Denali Borough, (Usibelli Coal Mine) Lake and Peninsula Borough (Bristol Bay fisheries), and Aleutians East Borough (Bristol Bay fisheries) all levy resource taxes on resources that occur, or until recently occurred, in volumes and with the dollar values found locally. The proportion of resource values to the population served in these four areas do not exist in the unorganized area in Southeast Alaska. Given the severe impacts to the Bristol Bay fisheries in recent years, and the loss of borough revenue that resulted, it seems unlikely that the Lake and Peninsula Borough and Aleutians East Borough would have organized as boroughs today.

POW faces similar economic impacts from its own resource industries. Prices for commercially caught fish have been depressed for several years. In September of last year the Southeast Conference of Mayors voted unanimously to ask Gov. Knowles to declare a economic disaster due to chronically low prices for salmon. Since then, Ward Cove Packing, the single largest fish buyer and processor in Alaska, announced the permanent end to their activities in most Alaska fisheries, and the sale of all their Alaska properties. Likewise, significant losses to the timber industry since 1994 eliminate it as a source for direct tax revenues to any potential borough government.

Subpart (b) of Part 4 of Section B details several state and federal aid programs available to the eight model borough areas under study. The report does not, however, account for the funding that communities in the unorganized borough currently receive from these programs, and how that funding will change with the establishment of a borough. If it is appropriate to summarize the revenue sources due to a Prince of Wales (POW) Borough from these aid programs, it is also appropriate to estimate the revenue losses to communities within any subsequent POW Borough. It is further necessary to determine the impact that the estimated funding loss will have on each community in the borough.

In the case of Craig, for example, National Forest Receipts funding that is not earmarked for education currently totals approximately \$190,000 per year. Loss of this revenue source is obviously significant to a community with a total fiscal year 2001 general fund budget of only \$1,912,000, yet the study fails completely to address this important impact. The City of Craig, and similarly situated communities, can expect funding losses from other programs from which the city currently receives funding should a POW Borough form. For POW and the other seven areas under study, a complete analysis of what will change with regard to these funding programs is an essential part of the review and must be included in the study.

Similarly, while the study claims a municipal land entitlement is due to newly formed boroughs, there is no detail regarding the extent of vacant, unreserved, and unappropriated state lands in the eight model boroughs under review. If, as the study states, municipal entitlement lands may be sold to generate revenues for a new borough, the extent to which a model borough can reasonably rely on this revenue source requires at least some inventory of potential entitlement properties in each borough.

Also missing is an analysis of the amount of funding each borough can expect from the revenue sources identified in subpart (b). The study frequently lists the aggregate amount available statewide from each source, but makes no effort to determine what each of the eight areas under review might receive. An individual analysis of revenues due to each of the eight areas under review is needed to fairly estimate borough revenue. For example, while National Forest Receipts (NFR) payments to communities in the Tongass National Forest currently total approximately \$9 million, only \$7.6 million of that amount is earmarked for education. Further, the study does not take note of the fact that NFR program is operating on a temporary safety net basis. Current NFR payments are not based upon actual revenues from the forest, as they were until 2000, but on a guaranteed payment amount due to sunset in 2006. If NFR payments to communities were based on actual receipts from the forest, then the State of Alaska and the 25 eligible communities in the Tongass would have split only about \$821,000 between them in 2002, with about 40 percent of that amount going to organized boroughs in Southeast Alaska. Chapter Three cannot be considered complete without a full accounting of the NFR and other funding programs.

The lack of a thorough, detailed analysis of revenues available to the eight model boroughs in the study, and the impacts to existing communities within those model boroughs, does not support the conclusion on page 51 that each of the eight areas under review has the financial resources capable of providing borough services.

Finally, regardless of how it is analyzed, the Prince of Wales area is far too negatively economically impacted to effectively support a borough government. The area is in the bottom quarter of per capita household income (p.49), bottom third of per capita income (LBC Composite Ranking Worksheet), bottom quarter of median household income (LBC Composite Ranking Worksheet), bottom quarter of estimated average household income (p.50), the bottom half of Adults not Working (p. 25), bottom half of unemployment (p.24) with seasonal highs in excess of 20%, and bottom half of percent poverty (LBC Composite Ranking Worksheet). Surely the LBC would agree that the forced application of borough government here is neither the solution to these economic problems nor the a needed obligation of the island.

Subpart (a) of Part 4 of Section B incorrectly reports that the City of Craig levies a six percent tax on raw fish. The city does not levy a raw fish tax.

#### **Population Size and Stability**

The report concludes that the POW model borough has a population stable enough to support borough government. But the report gives an incomplete profile of the local population.

The report states that POW population dropped 2.5% between 1990 and 2000. While that may be true, it is also true that the island's population continues to fall. The 2002 population estimate from the Alaska Department of Community and Economic Development (DCED) shows continuing declines in the area's population. Population changes since 1990, as provided by the DCED, are shown below.

POPULATION TRENDS - CRAIG AND PRINCE OF WALES ISLAND													
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>
Craig	1,227	1,079	1,497	2,136	2,144	2,041	2,062	1,900	1,798	1,695	1,413	1,415	1,260
POW	4,139	4,286	4,581	4,886	5,093	5,101	5,184	4,968	5,008	5,042	4,822	4,828	4,652

While Craig's population remains essentially unchanged between 1990 and 2002, it can hardly be characterized as stable. The state's population estimate surged and ebbed greatly between 1990 and 2002. Perhaps most telling is the 18 percent population loss experienced just since the 2000 census.

The island's population changed significantly during the decade, with a nearly 25 percent fall from the 1997 high. Just since the decennial census, the island's population has dropped by ten percent. That drop is part of a persistent and worrisome trend that began in 1998, and has led to the departure of nearly 1,000 residents. The city fails to see how such changes in population can be characterized as stable, even in the context of

supporting borough government. While the city does not believe the Island's population will drop below the 1,000 person presumptive minimum, the proportional declines are significant enough in degree and duration to adversely affect a potential borough level government.

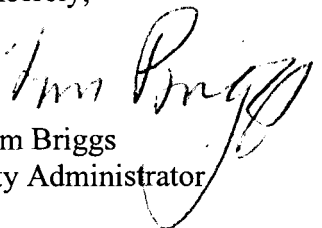
#### **Focus of Debate**

It is common knowledge that funding for schools, specifically REAA funding, is the driving force behind the legislation that authorized the unorganized borough study. All parties to this issue are better served by focusing on REAA funding, rather than the larger issue of borough formation. While boroughs are one way to compel local contribution to schools, there are other solutions that do not also create a host of new problems for rural areas that would come with communities being forced into organized boroughs.

The Craig City School District receives financial support from the City of Craig in the same proportion as Fairbanks North Star Borough Schools receives support from the Fairbanks North Star Borough. Fairbanks schools are no more responsible for REAA funding issues than are Craig schools. Yet the Craig school district could well face extinction while the Fairbanks district would not, despite the fact that both districts are on an equal footing with regard to local funding.

Providing for local funding of REAA schools from the communities they serve is certainly the most narrowly tailored possible solution. The City of Craig urges the LBC to consider this alternative in its report to the legislature.

Sincerely,



Tom Briggs  
City Administrator